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The Inc. FaxPoll™

WHAT ABOUT JAPAN?

Bashing takes a backseat to self-criticism.

DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT?

"To ask whether Japan plays fair is the wrong question. America's unique sense of fairness is not shared by the rest of the world. Japan's way of doing business is more relevant and effective [in today's international marketplace]."
—James Morgan, chairman of Applied Materials Inc.

Agree 70% Disagree 30%

Given the current state of this country's economy and the prevailing sentiment toward Japan, this is a surprising response. You had every opportunity to turn this into a Japan-bashing fest, but most of you agreed that the time for griping and groaning is past. It's time to take action. "Casting blame and pointing fingers will not get America ahead. Focusing on goals and working toward solutions in a global environment will."

The overall perception here seems to be that the Japanese are far better at executing than we are—resulting in better quality and efficiency—but are still not up to U.S. standards of innovation and customer service. There is some feeling that Japan absconded with our innovations and technology and used its superior manufacturing capabilities to capitalize on them: "We did all the R&D and then dropped the ball." "We sold out our businesses and technology for short-term profit."

How did Japan gain so many advantages? The strong undercurrent of opinion says the Japanese government is a far more effective business partner than the U.S. government, cultivating Japanese industry and strictly regulating the competition. The next-biggest advantage in the minds of most of you? The Japanese cultural predisposition to excellence as expressed by the country's emphasis on education, a strong work ethic, and group effort. "Americans are too concerned about how many days there are until the weekend."

Respondents clearly think we must accept responsibility for our skewed trade relationship with Japan, though where we went wrong is less clear. Is American arrogance the root cause, as some suggest, or are we simply being beaten at some of the fundamental games of business: quality control ("Our products haven't improved as fast as theirs have"); financial policies ("The United States is living beyond its means"); and long-term planning ("We make quick-buck, short-term decisions")?

Many who thought Japan is at least partly responsible for the trade deficit cited Japanese import restrictions and Japanese interference with U.S. trade policies as causes. But most of the blame fell on the United States: "We've allowed Japan power in our government and in trade that it would never allow us."

What should be done? Only 29% thought all trade restrictions on both sides should be removed. Most (61%) said our long-term policy should encompass limited restrictions and the goal of mutual interdependence. A small minority (8%) called for full-blown protectionism. *—Christopher Caggiano*

IN WHAT AREAS WOULD YOU SAY JAPAN DOES A BETTER JOB THAN THE UNITED STATES?

Manufacturing	72%
Education	67%
Management	49%
Research and development	43%
Customer service	32%
Innovation	28%
Banking/finance	27%
Services	16%

TO WHAT WOULD YOU ATTRIBUTE JAPANESE ECONOMIC SUCCESS IN THE POSTWAR ERA?

Government-industry collaboration	47%
Superior work ethic	37%
Superior educational system	35%
Decrease in U.S. competitiveness	35%
Cultural emphasis on group effort	31%
Greater emphasis on research, technology, and manufacturing	30%
Exclusion of foreign competitors from domestic markets	29%
Superior management philosophy	24%
Imitating U.S. ideas	20%
Japanese import restrictions	17%

YOU THINK THE U.S. TRADE DEFICIT WITH JAPAN IS . . .

Primarily the United States' fault	25%
A mix of both, but more the United States' fault	58%
Primarily Japan's fault	3%
A mix of both, but more Japan's fault	14%

WITH THIS POLL we included a true/false quiz, and the majority answered four out of the five questions correctly. For the record: the U.S.-Japan trade gap has narrowed by nearly $14 billion over the past five years; in 1991 U.S. companies shipped roughly $48 billion worth of goods to Japan, second only to what they shipped to Canada; and the productivity of the average U.S. worker has more than doubled since 1948.

True or false:	T	F
Since 1987, the U.S.-Japan trade gap has increased	62%	38%
Japan is the second-largest U.S. export market	51%	49%
The average Japanese works about 225 more hours per year than the average American	81%	19%
The productivity of the average U.S. worker has decreased since 1948	39%	61%
The U.S. Treasury relies heavily on Japan to finance our national debt	64%	36%

Note: Multiple responses account for total percentages above 100%.

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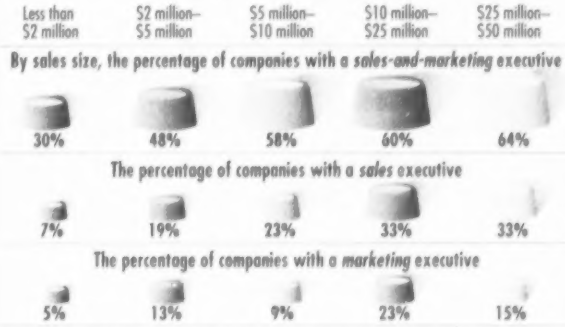
BENCHMARK

Do You Have a Sales-and-Marketing Manager?

Do you really need one? The 600 small companies surveyed by Ernst & Young for its annual compensation survey indicated a bias toward the double-duty title of ***sales-and-marketing executive****; more companies had an executive bearing the combined appellation than had one with a simple* ***sales executive*** *or* ***marketing executive*** *title. Of course, the titles aren't mutually exclusive—some companies do have both a sales exec and a marketing exec under the same roof.*



Source: "The 1991 Ernst & Young Survey of Executive Compensation for Middle Market Companies," based on data collected from 669 companies, roughly 55% of which had sales of $10 million or less.

DISTRIBUTION

Split-Identity Branding

CHRISTIE HAUCK WORKED hard to establish a name with consumers for his $3-million company, Christie Cookie Co., in Nashville. So why is he slapping other companies' logos on his product? He hopes wholesale and corporate sales can take him national.

Wholesale now represents 50% of Hauck's sales. He prepares special versions of chocolate-chip cookies for restaurants and upscale grocers to sell as their own brands. Hauck also sells cookie-filled tins to corporate clients, who give them to customers and employees. Each tin bears the company's logo and includes a card signed by the CEO. Hauck's 300 corporate customers, which spend an average of $300 to $500 an order, account for 7% of his revenues and are the most profitable part of the business.

The gift-tin *recipients* constitute another healthy market for Hauck; mail-order sales make up about 3% of his business. Inside every tin, with the cookies, is a "We Ship Anywhere" note from Hauck that has an 800 number to call. Over the past eight years, he's built a list of 60,000 names, which generates response rates of about 35% on yearly mailings.

The cookies still sell well in Hauck's six stores (which contribute about 40% of sales), but it's too late to be the next Mrs. Fields. "Our strategy was the only way to get a foot in the door." Now it's his ticket to expanding nationwide.

—S. G. and Tom Richman

IMPORTING

How to Navigate the Importing Seas

GOING DIRECTLY TO A FOREIGN SOURCE OF PRODUCT LOOKS like a great way to cut costs and boost margins. For Peter Nielsen, importing hard-to-get parts for vintage Volvos proved to be the perfect complement to his auto-repair-and-restoration business, Swedish Classics, in Oxford, Md.

Nielsen, whose sales are just under $500,000, has three employees and three WATS lines. He got his start in importing about 10 years ago by copying down the address labels on a few parts he had purchased from U.S. suppliers and contacting the manufacturers in England and Sweden directly. "They were very friendly," he says. Today Nielsen stocks thousands of Volvo parts and has the exclusive U.S. distribution rights on a profitable line of Volvo emblems. But, as Nielsen knows, there's more to importing than making a few long-distance phone calls. Before you jump in, consider:

- **Total product costs.** Dozens of components factor into what's called the landed cost, or the price of purchasing and securing the product; all will have an impact on your profit margin. The landed cost includes the initial cost of the product from the factory; air- or ocean-freight charges; U.S. customs duties; interest on bank letters of credit; and customs-broker fees. If, like Swedish Classics, you can't fill an entire air-freight container on your own, expect to pay a premium.
- **The customs maze.** Nielsen mistakenly figured he could take his first shipment through the U.S. Customs Service (USCS) himself. "It took me all day to do it, and I barely got the shipment through. Every part comes with a series of questions and criteria." Soon after, he hired a customs broker to handle all freight arrangements. Ask other importers in your industry for names of customs brokers, who must be licensed by the USCS and usually charge a flat fee "per entry."
- **Quality control.** When finding product suppliers, visit a number of foreign factories or trading companies, suggests Steven Kivitz, foreign buyer for Chadwick Miller, a Canton, Mass., importer of giftware. Then hire an overseas inspection agency, which will charge a flat fee or by the hour, depending on the tests done. You can make passing inspection a condition of the letter of credit, he adds, so your bank won't release payment without the stamped certificate of inspection.—*S. G.*

▼▼▼▼▼

RESOURCES

The Language of Importing

Importing has a language all its own. To learn the lingo, Steven Kivitz, foreign buyer for importer Chadwick Miller, suggests consulting two government publications. *Importing into the United States* (1991, $4.75) covers the entry process, assessment of duties, and other issues; it's available from local U.S. Government Printing Office bookstores, or by phone (301-953-7974). The two-volume *Customs Regulations* (Title 19, Code of Federal Regulations) lays out the rules for bringing products through U.S. customs; look for it in the government-books section of the library. Neither publication is easy reading, but both will introduce you to the terms used by customs officials, trading companies, and customs brokers. —*S. G.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

ACQUISITIONS

Deal-making Price Strategies

ANYONE WHO'S EXPLORED the possibility of buying a business recently knows that the tight financing environment makes it tough to put deals together. Unlike a few years ago, today most lenders aren't willing to do highly leveraged transactions. Yet company sellers aren't exactly racing to slash their prices. For would-be buyers, says Bob Jones, president of Aimfair, an Alameda, Calif., firm that advises buyers and sellers, "bridging the gap between buyers and sellers presents real challenges." Fortunately, Jones notes, there are good ways to structure purchases without relying too heavily on debt. (One of them—the "covenant not to compete"—was discussed in "Striking a Better Deal" in this column in September 1991.) Below are three more techniques Jones and his colleagues have recently used.

• Employment contracts. These are particularly effective, says Jones, if you're buying a service business (say, an ad agency or a graphics studio), for which much of the value is tied to what the owners and managers know and to their personal contacts. As the buyer, you probably don't want that value to vanish. "So it's to your advantage," he explains, "to pay the owner and perhaps other key people to stay around for a year or two." Typically, notes Jones, sellers want a premium over book value (total assets minus liabilities). But Jones suggests countering with less—and using management contracts both to sweeten the offer and to spread out payments.

• Performance payments. In Jones's experience, this technique can work well in deals involving various types of manufacturers and contractors. The sellers might argue they should be rewarded for contracts that are still in the works. Buyers in turn may be reluctant to reward sellers until the work in question is satisfactorily completed (which may be months or years away). In the recent purchase of a general-contracting business, for example, Jones says the buyer agreed to pay the seller around $10 million; also, the seller got a fixed sum for each completed contract. "It's a good way to give the seller credit for business he hasn't yet completed," offers Jones.

• Contingency payments. In cases in which buyers and sellers have major differences about how they expect a business to perform, contingency payments can be extremely useful, Jones says. "If the buyer has doubts that the growth will continue, contingency payments give the seller an added incentive to make the transfer of ownership as smooth as possible." In the recent sale of a $5-million furniture manufacturer, for instance, Jones says part of the price was tied to the company's future net profits surpassing an agreed-upon level. Depending on the circumstances, he says, "there are any number of benchmarks related to sales or profits that might be appropriate."

—B. G. P.

LEASING

Financing Big-Ticket Software

YOU'VE HEARD OF EQUIPMENT LEASING AND COMPUTER LEASING. Generally speaking, leasing offers a means of financing 100% of a purchase at fixed rates—without jeopardizing existing banking relationships. Now a new flavor of leasing is beginning to pop up: software leasing.

Many lenders and computer vendors won't lend for software because of concerns about the value of the collateral should the user run into trouble. Unlike a minicomputer, which can be resold, software is often customized for a particular setting and has little or no resale value. But as the sums spent on software-related items climb (often, they're more than the hardware), specialized lessors are moving in and assuming the risk.

> Large software vendors will frequently arrange leases on their own products. Two of the biggest independent software lessors are Software Leasing, in Santa Monica, Calif.; and Meridian Software Funding, in Cypress, Calif.

La Mode, a privately held sportswear maker in Los Angeles, for example, is leasing more than $200,000 worth of software over a five-year period. The alternative, says executive vice-president Sherwood Sterling, was to fund it internally or borrow against other, more tangible assets. Since the collateral is so weak, software lessors base their decisions on the creditworthiness of lessees (the customer's net worth, leverage, interest coverage, and the like).

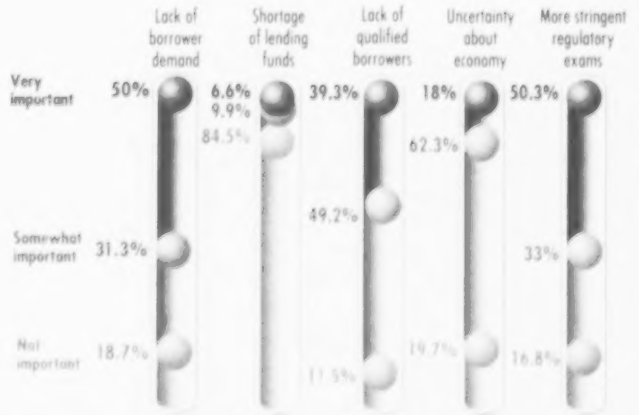
—B. G. P.

BENCHMARK

Behind the Credit Crunch

In the past couple of years, the level of bank lending has been down substantially. Did bankers tighten their lending standards? Did regulators spook the bankers? Or was there simply a lack of demand for loans? Last spring the accounting firm Grant Thornton surveyed bankers about the subject. Below is how those who worked for banks concentrating on small-business lending rated possible causes of the crunch.

Cause of decline in lending



Source: MCS Associates/Grant Thornton, Irvine, Calif., April 1992

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CASH FLOW

Skipped-Payment Loans

IF YOUR BUSINESS HAS SEASONAL SLOW periods that make it difficult for you to meet fixed loan payments 12 months a year, take heart. Many banks and finance companies let businesses structure loans that permit them to skip designated payments—in effect, allowing them to customize their payment schedule to match expected cash flow.

Bankers don't always volunteer their willingness to consider nonstandard paybacks, notes Ted Zoli, president of Torrington Industries, a $10-million construction-materials supplier and contracting business, which did its first skipped-payment loan more than 15 years ago. These days, however, such deals are becoming more common, in part because more lenders have computers that can do the calculations.

"Every time we buy a piece of construction machinery," Zoli explains, "we set it up so that we're making payments for eight or nine months, and then skipping three or four months during the winter." This suits the Glens Falls, N.Y., company's needs because its business tapers off during the winter months. Since Zoli misses a few payments, he ends up paying the bank more interest over the life of the loan than he would on conventional financing. But the convenience makes it well worth the extra cost, he argues.

To figure out the proper payment and loan-amortization schedule, Zoli uses a PC software program called Payoff (Phadean, 508-869-6077, $27). The program, he says, shows what happens when he skips (or prepays) any payment over the life of the loan; an additional benefit is that it lets him check the bank's calculations.

For those who are more comfortable with old-fashioned printed tables, *Skipped Payment Tables* (Financial Publishing, 617-262-4040, $27) offers 297 pages of tables covering loans at interest rates from 7.5% to 25%.

—*B. G. P.*

LENDING

The Biggest Nonbank Lenders

If you've got a young company in need of financing—or a more established business requiring longer-term financing than your lender will consider—your best bet is to find an institution that specializes in loans guaranteed by the Small Business Administration. Last year the SBA guaranteed more than $4 billion in loans to small companies, and a big share of those loans was originated by some 700 lenders scattered around the country that qualify as either certified or preferred lenders. For a list of the biggest SBA lenders in your area, contact the nearest SBA district office. Surprisingly, some of the most active SBA lenders (see table) aren't banks but financial companies, including ITT and (soon) AT&T.

—*B. G. P.*

	Number of Loans	Amount of Loans (in millions)
Money Store Investment Sacramento, Calif.	668	$253.1
Allied Lending Washington, D.C.	500	$15
Government Funding CALBIDCO Los Angeles	202	$74.4
ITT Small Business Finance St. Louis	158	$51.3
Gulf American SBLC Panama City, Fla.	106	$40.5
First Capital/Heller San Francisco	101	$33.7

Source: *The National Book of Lists,* Local Knowledge Publishing, San Ramon, Calif., 1992.

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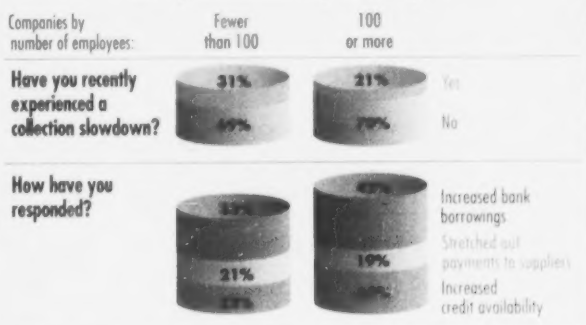
BENCHMARK

Slow Receivables Plague Companies

Accounts receivable are taking longer and longer to collect, especially at small companies, reports accounting firm Coopers & Lybrand. Twenty-eight percent of 362 CEOs of companies with a median of $7 million in sales and 58 employees surveyed found that the average payment period was a troubling 47 days, forcing businesses to take defensive measures to protect cash flow.



Source: Coopers & Lybrand, "Trendsetter Barometer," New York City, March 1992.

CASH FLOW

Keeping Revenue Growth Profitable

DURING 1990 LUBBERS RESOURCE Systems, a Grand Rapids waste-management company, grew from 300 to 1,000 customers and doubled its revenues. That should have been good news, but it produced a cash-flow catastrophe. CEO Karen Lubbers recalls, "When we signed up enough new accounts, we had to buy additional trucks and waste containers." Because margins are tight in the industry, recouping those heavy capital investments would take several years. What made matters worse, Lubbers could only depreciate her container expenditures over seven years, while she was able to extend her payments no longer than three years through supplier financing.

When the company ran out of cash, Lubbers realized she had to "analyze every prospective new account to make certain it would pay off for us in the bottom line."

Now, before signing up new business, Lubbers analyzes the total cost of servicing it, which includes the container price (roughly $100 per cubic yard) as well as prospective charges for financing, trucking, fuel, labor, repair and maintenance, insurance, and administrative overhead. Some unexpected factors turned up on her list. "Now we look at the geographic proximity of each prospective account to our existing client base. If we have to travel too far or haven't targeted a new customer's region for our expansion efforts, that often tips the cost scales."

She urges growing companies to analyze comprehensive costs before accepting any new business. Says Lubbers, "If you can't cover the costs of new business, walk away." —*J. A. F.*

INSURANCE

Hard-to-get Property-Casualty Coverage

FINDING AFFORDABLE PROPERTY-casualty insurance is difficult for all businesses these days. But the problem can seem insurmountable to companies that fall into hard-to-insure categories because they are start-ups or small ventures, or are domiciled in states with particularly tough insurance markets, such as Louisiana, Massachusetts, and New Jersey.

Paul Gregory, a New York City–based insurance broker turned consultant, recently set up shop in Baton Rouge, La., to help companies that either cannot find or cannot afford property-casualty coverage through the traditional method of working through an insurance broker. It's his response to a nationwide trend that's been forcing small businesses to, as he puts it, "either close down or move out of certain states."

Fortunately, small companies can aggressively take some steps on their own to avert massive rate hikes. Here's Gregory's advice:

• **Get involved in the underwriting process.** "I worked with a small trucking company based in Lafayette, La., that was facing a massive price increase," he recalls. "I explained to the chief executive that no insurance broker could understand his company as well as he did, so it was up to *him* to convince the insurance company that it was a good risk." The strategy worked: the CEO was able to tell his prospective insurer about a checklist of safety restrictions he had developed for his drivers, a new fleet-maintenance program, and various capital improvements. His insurer lowered the rate hike.

• **Stress your reputation.** Since start-ups have no loss record for insurers to rely on, Gregory advises CEOs to "sell prospective insurers on *their own credentials* within their industry." To do that, prepare a document that shows how long you've been working in the industry and details your own safety record (on everything from the products you've worked on to the cars you've driven). Then show the steps you've taken at your new company to *enhance* safety regulations. —*J. A. F.*

RESOURCE

Checking Insurer Safety

Finding affordable coverage (see "Hard-to-get Property-Casualty Coverage," above) isn't the only insurance problem companies face today. Here's an absolutely invaluable resource to help you conduct checkups on your insurer: a 23-page brochure, "How to Get Safety Information from Your Financial Institution," is available free from Weiss Research (800-289-9222), a West Palm Beach, Fla., organization well known for spotting problems at insurance companies and savings-and-loan associations.

The brochure includes perforated questionnaire cards to be mailed directly to insurers, bankers, and brokers. It also includes safety standards. (For insurers, Weiss looks for at least 50¢ worth of capital to cover every high-risk dollar.) —*J. A. F.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK